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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Honorable Russell B. Long United States Senate

Initial Results Of A Survey On Employee Stock Ownership Plans And Information On Related Economic Trends

GAO is conducting a major study of the extent to which Employee Stock Ownership Plans (ESOPs) are achieving the goals of broadening the ownership of corporate stock, providing a mechanism for financing corporate growth, and improving the productivity of corporations. Tax legislation provides certain incentives to firms to create ESOPs and other employee benefit plans. In this report, GAO presents the initial results of a census of ESOPs as well as background information on the (1) distribution of stock ownership, (2) sources and uses of corporate funds, and (3) productivity trends in the United States and selected industrial countries.

GAO/PEMD-85-11
SEPTEMBER 30, 1985

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROGRAM EVALUATION
AND
METHODOLOGY DIVISION

B-220256

The Honorable Russell B. Long
United States Senate

Dear Senator Long:

Subject: Initial Results of a Survey on Employee Stock Ownership Plans and Information on Related Economic Trends (GAO/PEMD-85-11)

This report responds to your request for background information on Employee Stock Ownership Plans (ESOPs) and several related topics as part of a larger study of ESOPs. We begin by reporting initial analyses of data from a GAO survey of ESOPs. These are preliminary results, subject to revision as follow-up procedures discussed in the text are completed.

The remainder of the paper provides background information intended to establish a context for the findings we will discuss in two later reports. Specifically, we report here on trends in three areas relevant to the goals of ESOP legislation: the ownership of capital, the sources and uses of corporate finance, and productivity in the U.S. economy. A later report will examine the extent to which ESOPs may have broadened the ownership of capital, provided funds to finance corporate growth, and improved the productivity and profitability of ESOP firms.

The trend-line information reported here was developed by private researchers, the Federal Reserve Board, the Statistics of Income Division of the Internal Revenue Service, and the Bureau of Labor Statistics. We note that this information has not been verified independently by GAO.

As arranged with your office we are sending copies of this report to the Senate Committee on Finance, House Committee on

(973589)
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Ways and Means, Senate Committee on Labor and Human Resources, and House Committee on Education and Labor. Copies will also be available to other interested parties who request them.

Sincerely yours,

Eleanor Chelimsky
Director

Enclosure

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1. OVERVIEW AND GLOSSARY

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OVERVIEW

- The Employee Stock Ownership Plans (ESOP) program has three goals:
  - --broader ownership of corporate stock,
  - --the provision of more funds for capital formation, and
  - --improved performance of the sponsoring corporations.
- The Program Evaluation and Methodology Division (PEMD) of the U.S. General Accounting Office is conducting a study to determine whether the ESOP program is achieving these goals.
- For part of this study, GAO has collected data on the numbers and types of ESOPs as well as on the number of participants and amounts of assets associated with ESOPs.
- In addition, we have obtained background data on corporate stock ownership, the sources and uses of corporate funds, and trends in productivity and profitability.

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GLOSSARY

- Employee Stock Ownership Plan (ESOP)

  A trust established to receive stock of an employer and other assets for allocation to the individual accounts of participating employees.

- Leveraged ESOP

  An ESOP in which money is borrowed by the ESOP trust for the purpose of buying stock of the employer. The stock is normally held as security by the lender and released for allocation to participant accounts as the loan is paid off.

- Leverageable ESOP

  An ESOP that is permitted to leverage under the terms of the plan documents but has not done so by a given date.

- Nonleveraged ESOP

  An ESOP other than a tax credit ESOP that is not permitted to leverage under the terms of the plan documents.

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- Tax credit ESOP

  An ESOP originating in the Tax Reduction Act of 1975, which allows employers to claim a tax credit for contributions to an ESOP. From 1975 through 1982, the credit was based on an employer's eligible investment; a 1% credit could be claimed for contributions up to that amount and an additional 0.5% could be claimed for contributions that matched employee contributions up to that amount. Since 1983, a credit of 0.5% of employee payroll has been allowed.

- Capital consumption adjustment (cca)

  An adjustment made in the estimates of the capital consumption allowance, or book depreciation, to reconcile these figures with actual economic depreciation.

- Inventory valuation adjustment (iva)

  An adjustment made in the valuation of inventories to take account of differences between historical costs and current costs of inventories.

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2. CENSUS OF ESOPs

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SURVEY METHODS

- One objective of our study is to take a census of ESOPs. To do this efficiently we have surveyed a sample of plans selected from a list of 8,891 candidate ESOPs identified for us by IRS as having indicated on Form 5500 filings for 1979-83 that they had "ESOP features." Our survey was designed to estimate the number of these plans that meet the legal definition of an ESOP and the number that do not.
- These 8,891 plans were sorted into 9 strata, based on the amounts of plan assets and the numbers of plan participants.
- A stratified random sample of 2,004 of these plans was selected for the study. A sufficient number of plans was selected from each stratum to insure that proportion estimates would be representative of the population of 8,891 within 5% at the 95% level of confidence.
- We sent mail questionnaires to the sponsoring corporations to determine how many of the 2,004 plans were ESOPs. The overall response rate was 81%, with individual strata varying from 70% to 98%. We are using follow-up procedures to investigate differences that might introduce bias into our results.
- The responses we obtained allow us to generalize to a universe of 7,042 plans; the remaining 1,849 plans contain an unknown number of ESOPs to which our sample results cannot be extended.

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Table 1

GAO Estimates of the ESOP Population

Type	Active		Terminated		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax credit	1,078	25.8	166	23.1	1,244	25.4
Leveraged	676	16.2	58	8.1	733[a]	15.0
Leverageable	1,466	35.1	192	26.7	1,659[a]	33.9
Nonleveraged	938	22.5	287	39.9	1,225	25.0
Other[b]	20	0.5	16	2.2	36	0.7
Total	4,178	100.1[c]	719	100.0	4,898[a]	100.0

[a]Weighted totals do not balance because of rounding.
[b]Includes ESOPs that cannot be placed in categories without further information; an attempt is being made to gather it.
[c]Does not add to 100 because of rounding.

THE CENSUS

- GAO estimates that 4,178 of 7,042 plans are active ESOPs. We estimate that another 719 ESOPs have been terminated, accounting for a total population of 4,898 (weighted totals do not balance because of rounding). The remaining 2,044 plans either are not ESOPs or cannot be identified without further follow-up, which we are conducting.
- If the same patterns held for nonrespondents, we would estimate that 5,194 of the original 8,891 plans are active ESOPs and 946 are terminated ESOPs, accounting for a total of 6,140 ESOPs.
- These estimates omit ESOPs formed in 1984 and 1985 as well as all related Stock Bonus Plans that were not identified as ESOPs on Form 5500. We are collecting data on these plans for our final report.
- Among active ESOPs,
  - --26% are tax credit ESOPs,
  - --16% have used the leveraging provisions, and
  - --another 35% are leverageable but have not used this provision.
- Nearly 40% of all terminated ESOPs were nonleveraged.
- Leveraged ESOPs appear less likely than nonleveraged ESOPs to be terminated, perhaps because of the significant financial commitment involved in leveraging.

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Table 2

GAO Estimates of Participants and Assets of ESOPs

	Participants			Assets[a]			
Type	Number	Percent	Median/ plan	Total (million)	Percent	Median/ plan	Median/ participant
Tax credit	6,273,079	90.1	521	$14,676	80.2	$945,945	$2,968
Leveraged	152,658	2.2	54	1,406	7.7	422,586	8,391
Leverageable	314,129	4.5	35	1,361	7.4	298,527	7,759
Nonleveraged	219,137	3.1	41	849	4.6	230,424	5,108
Other	1,201	[b]	10	[c]	[b]	0	0
Total	6,960,204	99.9[d]	58	$18,291	99.9[d]	$384,805	$5,534

[a]In constant 1983 dollars.
[b]Less than 0.05.
[c]Total assets amount to $188,705.
[d]Totals do not balance because of rounding.

/c/

NUMBERS OF PARTICIPANTS AND AMOUNTS OF ASSETS IN ACTIVE ESOPS

- Overall, 90% of all ESOP participants (6,273,079 of 6,960,204) are in tax credit ESOPs.
- The median tax credit ESOP has many more participants than other types of ESOPs.
- Overall, 80% of the assets held by ESOP trusts ($14.7 billion of $18.3 billion by 1983) are held by tax credit ESOPs.
- The median tax credit ESOP holds much larger amounts of assets than other types of ESOPs.
- But tax credit ESOPs have smaller amounts of assets per participant than leveraged, leverageable, and nonleveraged ESOPs. Leveraged ESOPs have the highest assets per participant -- $8,391.
- Some tax credit ESOPs appear to have been formed in very large firms, which is reflected in the high values for numbers of participants and assets. But overall, tax credit ESOPs provide limited assets per participant.
- In summary, tax credit ESOPs typically have more participants and hold more gross assets than the other types of ESOPs, but leveraged ESOPs have the highest asset value per participant.

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3. ESOPs AND THE DISTRIBUTION OF STOCK OWNERSHIP

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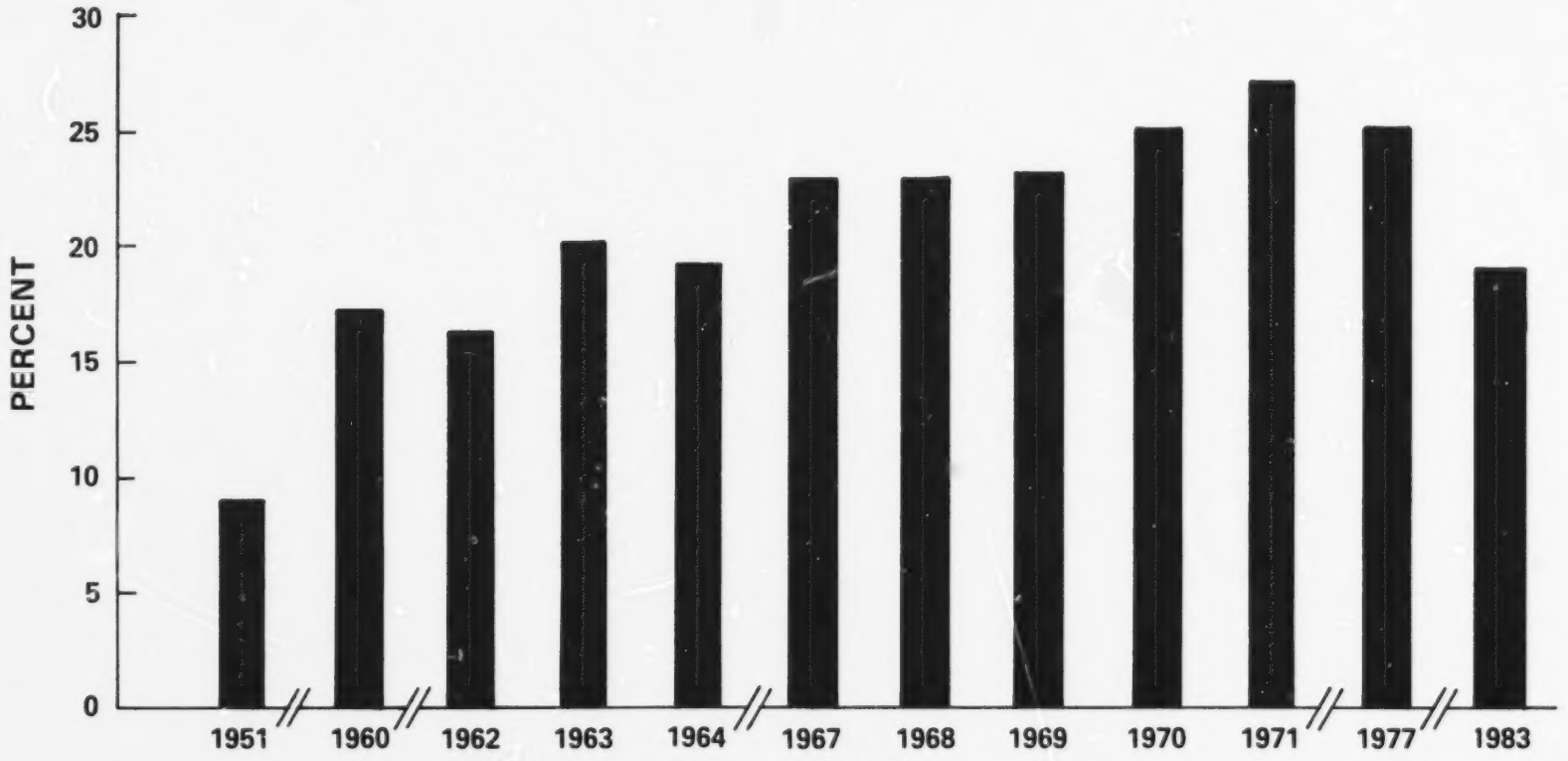
PERCENTAGE OF ALL FAMILIES OWNING STOCK, SELECTED YEARS FROM 1951 THROUGH 1983



SOURCE: SURVEYS OF CONSUMER FINANCES
SURVEY RESEARCH CENTER
INSTITUTE FOR SOCIAL RESEARCH
UNIVERSITY OF MICHIGAN

STOCK OWNERSHIP AMONG FAMILIES

One goal of the ESOP program is to broaden the ownership of corporate stock. For part of the PEMD study of ESOPs, we examined evidence on trends in stock ownership. Using data from the University of Michigan Survey Research Center periodic surveys of consumer finances we found that

- the percentage of families owning stock increased steadily between 1964 and 1971 and then declined,
- the percentage of families owning stock in 1983 was equivalent to the percentage owning stock in 1964, 19 years earlier, and
- the percentage of families owning stock has remained less than 30% for the years sampled at an average of 20%.

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Table 3

Percentage of Corporate Stock Value (CSV) and Total Assets (TA) Held by Top Asset Holders

Year	Top 0.5%		Top 0.8%		Top 1%	
	CSV	TA	CSV	TA	CSV	TA
1958	60.8%	20.2%			68.8%	25.2%
1962	53.7	21.2			62.4	26.8
1965	58.6	23.4			67.4	29.0
1969	50.1	20.4			57.9	25.8
1972	54.8	20.5			62.7	26.0
1976	38.3	13.8			46.0	18.3
1981			41.0%	20.0%		

Source: 1958-76 data from James D. Smith, "Recent Trends in the Distribution of Wealth: Data, Research Problems and Prospects," paper presented at the C. V. Starr Center Conference on International Comparisons of the Distribution of Household Wealth, New York, 1983; 1981 data from Marvin Schwartz, "Trends in Personal Wealth, 1976-1981," Internal Revenue Service, no date.

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STOCK OWNERSHIP AMONG TOP ASSET HOLDERS

Another way to look at breadth of ownership is to compare the distribution of stock value to that of all assets. James Smith of the Survey Research Center at the University of Michigan estimated asset holdings for 1958 through 1976. Marvin Schwartz from IRS produced similar estimates for 1981. Both used the estate-multiplier technique, which estimates population wealth through estate tax returns and appropriate mortality rates. The data show that the ownership of stock

- is much more concentrated than the ownership of total assets and,
- with total assets, has become less concentrated since 1958, down from 60.8% to 38.3% among the top 0.5% of asset holders and from 68.8% to 46.0% among the top 1%. In addition,
- the most recent estimates for 1981 show that the top 0.8% of asset holders owned 20% of total assets and 41% of corporate stock value.

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Table 4

Distribution and Market Value of Corporate Equities for Selected Years 1960-83[a]

	1960	1965	1970	1975	1980	1981	1982	1983
Total stock outstanding	$451.0	$749.0	$906.2	$892.5	$1,635.6	$1,568.5	$1,810.5	$2,151.5
Held by								
Households	87.7%	84.9%	80.4%	72.5%	72.6%	72.3%	70.4%	68.1%
Private pension funds (self-administered)	3.7	5.4	7.4	11.4	12.8	12.5	13.7	14.2
State and local government retirement funds	0.1	0.3	1.1	2.7	2.7	3.0	3.3	4.2
Mutual funds	3.3	4.1	4.4	3.8	2.6	2.4	2.7	3.4
Brokers and dealers	0.1	0.2	0.2	0.4	0.2	0.4	0.2	0.1
Life insurance companies	1.1	1.2	1.7	3.1	2.9	3.0	3.1	3.0
Other insurance	1.7	1.6	1.5	1.6	2.0	2.1	2.1	2.2
Commercial banking[b]								
Mutual savings banks	0.3	0.3	0.3	0.5	0.3	0.2	0.2	0.2
Foreign owners	2.1	1.9	3.0	4.0	3.9	4.1	4.2	4.5

Source: Assets and Liabilities Outstanding 1960-1983, Flow of Funds Accounts, Federal Reserve Board.

[a]Dollars current in billions.
[b]Less than 0.05%.

STOCK OWNERSHIP AMONG INDIVIDUALS AND INSTITUTIONS

Corporate stocks are held by institutional investors as well as individuals. The Federal Reserve Board Flow of Funds Accounts shows the distribution of corporate stock among individual and institutional investors for 1960 to 1983. The figures in table 4 show the market value of common and preferred corporate stock, including investment company shares but not stock of closely held companies.

- Households own the majority of corporate stock value. (The household category consists predominantly of individuals but includes personal trusts and nonprofit organizations.) This group held more than 68% of all stock value in each year shown. This estimate is conservative. Substantial portions of stock held by mutual funds and life insurance companies are owned by individuals, but there is no accurate method by which to estimate them.
- The portion of stock value held by households, however, has decreased, falling from 87.7% in 1960 to 68.1% in 1983.
- Conversely, the share of stock value held by pension funds and other institutional investors has risen continuously. Self-administered private pension funds held 3.7% of all stock value in 1960 and up to 14.2% in 1983.
- The share of stock held by foreign investors more than doubled between 1960 and 1983, rising from 2.1% to 4.5%.

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4. ESOPs AND ECONOMIC PERFORMANCE: FINANCING CORPORATE GROWTH

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Table 5

Source of Funds: Nonfarm, Nonfinancial Corporations
for Selected Years 1955-85[a]

	1955	1960	1965	1970	1975	1980	1981	1982	1983	1984	1985
Total	$52,660	$48,622	$91,840	$102,344	$156,953	$335,231	$364,155	$309,360	$436,349	$482,597	$449,520
Internal	55.9%	72.8%	63.7%	60.4%	76.2%	56.5%	63.3%	75.7%	64.3%	69.4%	79.0%
Retained earnings	22.4	16.5	20.8	7.4	21.7	14.6	12.6	3.3	4.3	7.1	5.5
Capital consumption allowance	36.1	54.8	35.4	50.6	59.8	50.1	52.0	66.9	49.3	47.3	53.1
Iva and cca[b]	-7.1	-4.7	2.7	-4.0	-13.5	-17.1	-8.1	-1.8	5.0	10.2	15.2
Foreign earnings	4.5	6.2	4.8	6.4	8.3	8.9	6.7	7.2	5.7	4.8	5.2
External	44.1%	27.2%	36.3%	39.6%	23.8%	43.5%	36.7%	24.3%	35.7%	30.6%	21.0%
New equity issues	3.3	2.8	[c]	5.6	6.3	3.8	-3.1[d]	3.7	6.5	-16.0[d]	-18.9[d]
Debt	16.0	22.0	20.0	28.9	13.3	23.3	28.3	22.6	13.6	36.4	31.8
Other	24.8	2.4	16.1	5.2	4.2	16.3	11.6	-2.1	15.6	10.2	8.2

Source: Flow of Funds Section, Federal Reserve Board.

[a]Dollars current in millions, seasonally but not annually adjusted for inflation. All figures based on quarterly estimates, except 1985 based on first-quarter estimates only.
[b]iva = inventory valuation adjustment; cc = capital consumption adjustment.
[c]Less than 0.05%.
[d]Indicates firms bought more stock than they issued.

SOURCES OF CORPORATE FUNDS

Another goal of ESOPs is to provide a source of funds for capital formation. Corporations finance capital formation and increases in financial assets through both internal and external sources of funds. The Flow of Funds Section of the Federal Reserve Board collects figures from the Department of Commerce and makes some supplementary adjustments for the nonfarm, non-financial corporate sector:

- Internal sources of funds continue to supply the majority of corporate funds.
- Capital consumption allowance, or depreciation, provides a substantial proportion of total sources of funds by increasing cash flow. This item alone provided more than half of all corporate funds in 7 of the 11 years shown in table 5.
- New equity issues have constituted between -18.9% and 6.3% of total sources of funds for the years shown here.
- Debt has provided a higher proportion of corporate funds than new equity issues for each of the years shown and for most years has accounted for a majority of externally raised funds.

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Table 6

Use of Funds: Nonfarm, Nonfinancial Corporations for Selected Years 1955-85[a]

	1955	1960	1965	1970	1975	1980	1981	1982	1984	1985
Total	$49,121	$41,409	$82,729	$198,726	$150,912	$317,627	$334,179	$258,013	$439,373	$413,592
Capital expenditures	66.4%	90.5%	73.7%	81.0%	72.7%	69.6%	81.2%	89.0%	83.7%	89.9%
Financial assets	33.6	9.5	26.3	19.0	27.3	30.4	18.8	11.0	16.3	10.1

Source: Flow of Funds Accounts, Federal Reserve Board.

[a]Dollars current in millions, seasonally but not annually adjusted for inflation. All figures based on quarterly estimates, except 1985 based on first-quarter estimates only.

USES OF CORPORATE FUNDS

The Flow of Funds Section of the Federal Reserve Board also collects figures on the uses of corporate funds. The Flow of Funds Accounts shows nonfarm, nonfinancial corporate expenditures for capital investment and increases in financial assets:

- The majority of corporate funds are used for capital expenditures rather than financial assets. This pattern holds for intervening years not shown.
- The portion of corporate funds used for capital expenditures varied from a low of 66.4% up to 90.5% for the years in table 6 with no consistent increase or decrease.

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Table 7

Major Corporate Tax Savings from Investment Credit and Depreciation Deduction 1975-82[a]

	1975	1976	1977	1978	1979	1980	1981	1982	Total
Investment credit									
Total allowed	$6,459,746	$9,152,712	$11,038,404	$12,897,172	$14,634,672	$15,102,812	$18,887,286	$17,312,702[b]	$105,485,506
Tentative	8,586,453	11,265,727	14,033,620	15,819,273	19,040,576	20,852,667	26,001,771[b]	26,659,306	142,259,393
7%	1,170,360	209,734	98,265	53,150	7,586	[d]	[d]	[d]	1,539,095
10%	7,311,940	10,608,602	13,285,657	15,010,111	18,026,113	19,765,094	24,614,579[c]	25,166,056[c]	133,788,152
1% ESOP	104,153	447,391	570,939	645,745	806,461	859,401	1,090,614	1,173,453	5,698,157
0.5% ESOP	[d]	[d]	78,759	110,267	180,275	196,137	258,470	297,761	1,121,669
Patrons' regular	[d]	[d]	[d]	[d]	20,141	32,035	38,108	22,036	112,320
Depreciation deduction	$86,295,664	$93,761,989	$106,972,692	$121,299,900	$178,061,915	$157,345,828	$186,195,048	$213,179,160	$1,103,112,196
Maximum tax rate	48%	48%	48%	48%	46%	46%	46%	46%	
Estimated tax savings	$41,421,919	$45,005,755	$51,346,892	$58,223,952	$63,508,481	$72,379,081	$85,649,722	$98,062,414	$515,598,216

Source: Statistics of Income, Corporation Income Tax Returns, Internal Revenue Service.

[a]Dollars current in thousands.
[b]Because of a change in the statistics-of-income reporting procedures, these numbers are not perfectly comparable to the numbers in the tentative investment credit category for previous years. These figures come from a slightly different SOI category but closely approximate the actual figures.
[c]This category was not reported in SOI for 1981 or 1982. The numbers reported here represent the difference between the tentative investment credit and the total of the ESOP credits plus the patrons' regular investment credit for each year.
[d]Not applicable.

INVESTMENT TAX CREDIT AND DEPRECIATION DEDUCTION

A number of tax code provisions, including those related to ESOPs, affect cash flow to corporations to encourage new or replacement investment in productive assets. The most important of these provisions are the investment tax credit and the depreciation allowance. Data from IRS Statistics of Income show that

- the Allowed Investment Credit totaled about $105.5 billion between 1975 and 1982, and
- the Tentative Investment Credit, before limitations and carryovers, totaled about $142.3 billion in the same period.
- Of this amount, the 7% and 10% investment credit accounted for approximately $135.3 billion, 95% of the total Tentative Investment Credit, and
- the ESOP portion of the credit totaled about $6.8 billion, less than 5% of the total Tentative Investment Credit.
- We estimate that corporate tax savings from the depreciation deduction totaled about $515.6 billion, approximately 3-1/2 times the amount of the Tentative Investment Credit.

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5. ESOPs AND ECONOMIC PERFORMANCE: BACKGROUND DATA ON PRODUCTIVITY AND PROFITABILITY

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ECONOMIC PERFORMANCE OF CORPORATIONS

The third goal of the ESOP program is to improve the economic performance of sponsoring corporations. Proponents of ESOPs cite two ways in which an ESOP could aid the economic performance of its sponsoring company:

- o workers might be more motivated and therefore more productive when they acquire an ownership interest in the company for which they work, and
- o as a method of corporate finance, ESOPs can provide capital for expansion.

The GAO study is examining the effects of ESOPs on the economic performance of firms. The present briefing, however, includes only background data on national trends in productivity.

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PREVIOUS RESEARCH ON THE EFFECT OF ESOPS ON ECONOMIC PERFORMANCE

GAO has systematically searched for and reviewed studies relevant to the effect of ESOPs on firms' economic performance. Despite some methodological weaknesses, this research provides some evidence, though mixed, that ESOPs may aid the economic performance of sponsoring firms.

- The productivity growth rate of a sample of about 125 ESOP firms was greater during 1975-79 than the national figures for their industries (ref. 1*);
- however, 10 matched firms had productivity as high as or higher than 10 ESOP firms in the same industry during the period 1978-81 (ref. 2).
- A sample of majority employee-owned firms, some of which had ESOPs, had greater employment growth than conventionally structured firms (ref. 3).
- Ten ESOP firms were not significantly more profitable than 10 matched firms on three measures of profitability but outperformed the non-ESOP firms for 2 years during 1978-81 on a fourth measure (ref. 2);
- a sample of employee-owned firms produced 50% higher profits than the average for their industries (ref.4); and
- an elaboration of this study with a matched comparison of firms found no difference in the profitability of employee-owned and non-employee-owned firms (ref. 5).

*(See last page for list of references.)

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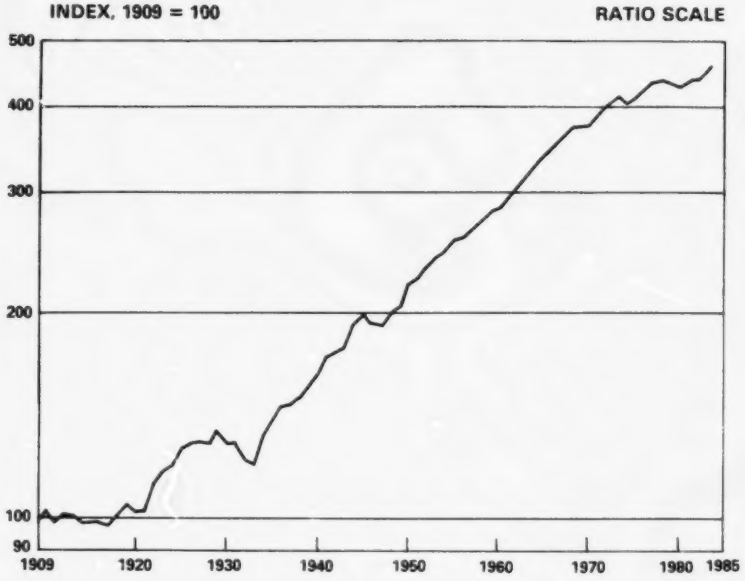
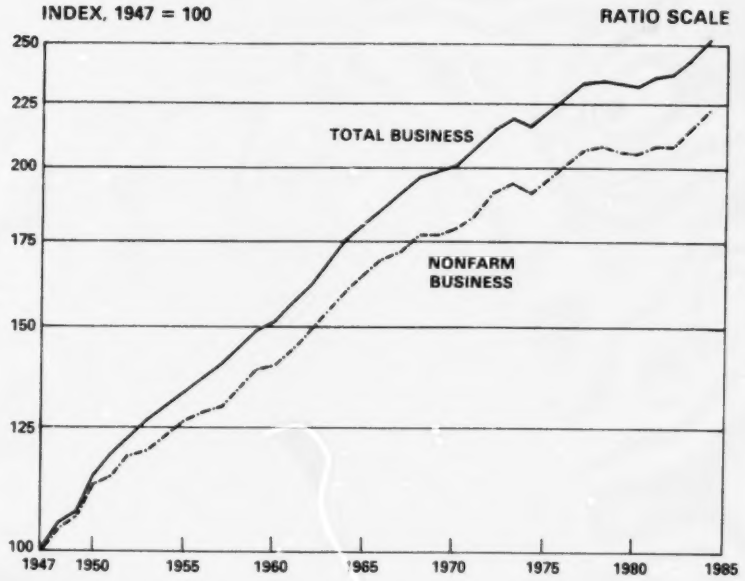
OUTPUT PER HOUR OF ALL PERSONS IN THE BUSINESS ECONOMY, 1909-84



SOURCE: BUREAU OF LABOR STATISTICS

OUTPUT PER HOUR OF ALL PERSONS IN THE TOTAL BUSINESS AND NONFARM BUSINESS ECONOMIES, 1947-84



SOURCE: BUREAU OF LABOR STATISTICS

TRENDS IN PRODUCTIVITY IN THE UNITED STATES

The Bureau of Labor Statistics computes U.S. productivity from data for establishments and from measures of compensation and output provided by the Department of Commerce and the Federal Reserve Board.

Output per hour of all persons is a measure of labor productivity based on the value of goods and services in constant dollars produced per hour of labor.

- o U.S. productivity has generally risen in the 20th century, counting from 1909 through 1984.
- o Between 1977 and 1982, productivity growth was slight, and it declined in 1979 and 1980.
- o Data for 1983 and 1984 suggested renewed growth in productivity, but the first quarter figure for 1985 (not shown on chart) is only slightly higher than the 1984 annual average and lower than the fourth-quarter figure for 1984.
- o Overall productivity growth has slowed since 1965.

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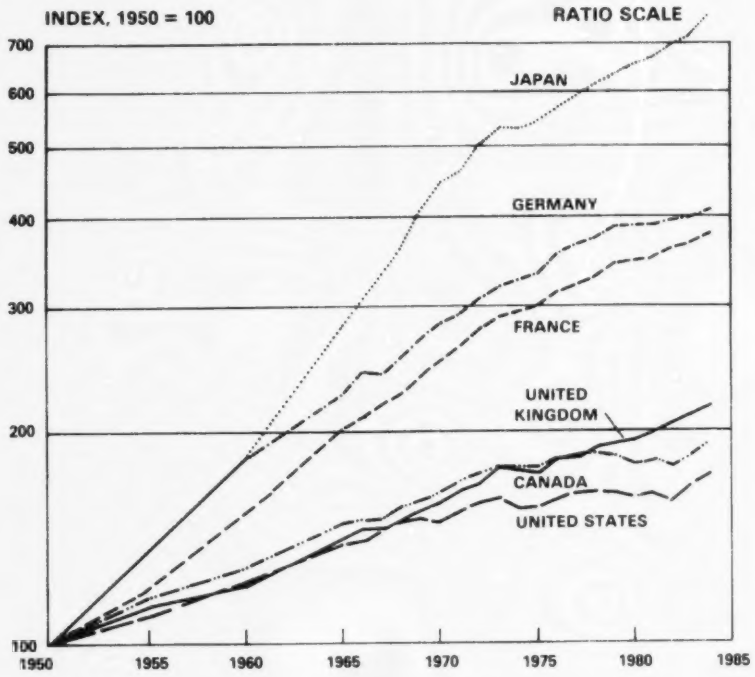
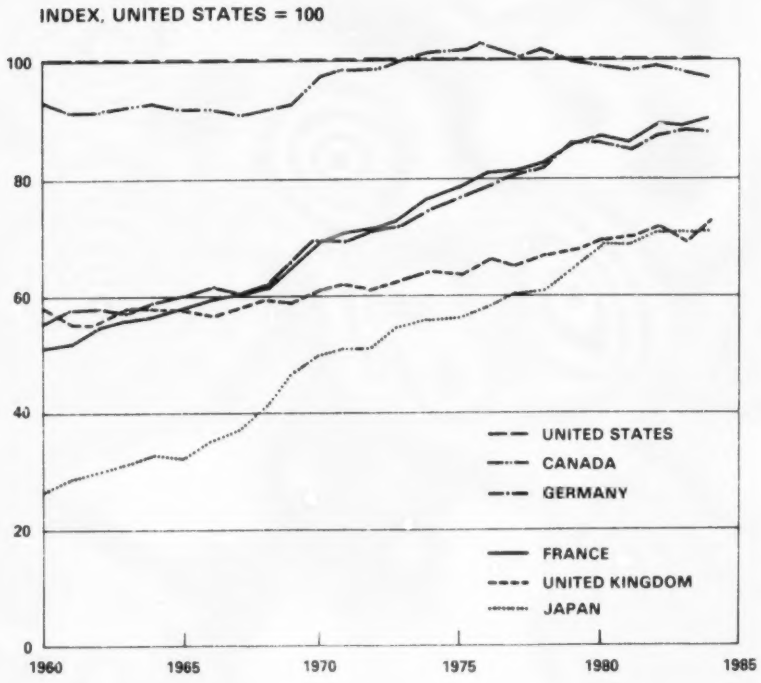
TRENDS IN REAL GROSS DOMESTIC PRODUCT PER EMPLOYED PERSON, SELECTED COUNTRIES AND YEARS, 1950-84



SOURCE: BUREAU OF LABOR STATISTICS

RELATIVE LEVELS IN REAL GROSS DOMESTIC PRODUCT PER EMPLOYED PERSON, SELECTED COUNTRIES AND YEARS, 1960-84



SOURCE: BUREAU OF LABOR STATISTICS

TRENDS IN PRODUCTIVITY IN THE UNITED STATES AND SELECTED OTHER COUNTRIES

The Bureau of Labor Statistics presents international comparisons of productivity in terms of gross domestic product per employed person.

- o U.S. productivity growth has lagged behind that of some other industrial countries.
- o The level of U.S. productivity remains superior to that of other major industrial countries.
- o However, the international edge that the United States has in productivity has diminished since 1960 because productivity growth rates have been greater in some other industrial countries.

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6. THE GAO STUDY OF PRODUCTIVITY AND PROFITABILITY IN ESOP FIRMS

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DESIGN AND METHOD

GAO is currently conducting a study of the effect of ESOPs on the productivity and profitability of corporations that sponsor ESOPs. Unlike some previous studies relevant to the question of the effect ESOPs have on economic performance, the GAO study uses a relatively large sample of ESOP corporations and does not include other types of employee-owned corporations as an ESOP-like sample.

- We are examining the economic performance of a sample of ESOP sponsoring firms. The sample consists of firms that established ESOPs in tax years 1976 through 1979.

The GAO study is designed to compare the economic performance of a matched sample of ESOP and non-ESOP firms for several years before and after the companies sponsored ESOPs. This design allows a more definitive interpretation of findings than a design without a comparison group or a comparative study using data from a single year.

- The matched comparison group of non-ESOPs is necessary to differentiate the effects of cyclical changes in the economy from the effects of ESOPs on the economic performance of ESOP firms.

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- If ESOP firms do tend to outperform non-ESOP firms, the data before and after the formation of ESOPs allow us to distinguish between two possible explanations: either that more prosperous firms tend to sponsor ESOPs or that firms tend to become more prosperous after sponsoring ESOPs.

We are gathering financial data about the corporations from corporate tax returns and employee plan data from IRS computer files as well as from questionnaires to corporations.

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QUESTIONS ON PRODUCTIVITY

After collecting and analyzing the data from our current study, we expect to report on four major questions about the effect of ESOPs on economic performance:

1. Do companies with ESOPs experience an improvement in productivity?
   - o We will be able to report whether ESOP firms that began to sponsor ESOPs in 1976 through 1979 experienced an improvement on a measure of productivity relative to similar firms.
2. Do companies with ESOPs experience an improvement in profitability?
   - o We will be able to report whether ESOP firms that began to sponsor ESOPs in 1976 through 1979 experienced improved profitability relative to similar firms.
3. What factors related to ESOPs influence the effects of ESOPs on productivity and profitability?
   - o We plan to report which of a variety of factors are associated with changes in rates of productivity and profitability.

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4. What is the relationship, if any, between the establishment and continuation of an ESOP and the level of employees' compensation and benefits from the sponsoring corporation?

   - To the extent possible, we will report on whether employees' compensation and benefit levels tend to be diminished, unaffected, or increased with the establishment of an ESOP.

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